

Fiscal Year [2014-15]

TITLE OF PROPOSAL

Tax Gap II and Lumber Products Assessment

DIVISION PRIORITY NUMBER

PROGRAM IMPACTED

Sales and Use Tax Program

SUMMARY OF REQUEST *(including impact if request denied)*

This is a proposal to convert a total of 11.5 positions (5.5 two-year limited term positions in the Tax Gap II Outreach Program, and 6.0 two-year limited term positions in Lumber Fee Assessment) to permanent positions and add an additional 4.0 permanent positions in Technology Service Division for the Lumber Fee Assessment. These 2-year limited term positions through the Tax Gap II and Lumber Fee Assessment Budget Change Proposals will expire in June 2014. Continuation of the Tax Gap II Outreach positions will allow the BOE to continue educating taxpayers about the use tax throughout the state. The BOE is also requesting to continue 6.0 Lumber Fee Assessment positions to provide high quality services to the fee payers that are required to register, collect, report, pay the additional fee, as well as to assist with the increase in communications between the fee payers and the BOE. In addition, the BOE is requesting 4.0 new positions to provide ongoing technology maintenance and support for this program.

BACKGROUND/HISTORY

In FY 2008-09 through 2010-11, the first Tax Gap Plan was approved and the initiatives were implemented. In FY 2012-13, Tax Gap II initiatives that were conducive to the changing economic environment were also approved. The Tax Gap II revenue as of February 28, 2013 was \$4.2M and is on track to meet the \$15M anticipated. In this concept for Tax Gap II, only the Outreach Element positions were identified to make the 5.5 Limited Term positions permanent. In January 1, 2013, a new Lumber Fee Assessment pursuant to AB 1492 became law with estimated annual revenue of \$30M and the BOE is statutorily mandated to administer this new program. Implementation of this new Lumber Fee has resulted in additional telephone calls and written inquiries by the Taxpayer Information Section (TIS) and the Audit and Information Section. The BOE is requesting to permanently establish the existing 6.0 positions and to add an additional 4.0 positions in TSD for the Lumber Fee portion of this concept.

STATE LEVEL CONSIDERATIONS *(including impact to other departments)*

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs. In FY 2010-11, the BOE-administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, and natural resource management.

This concept proposal is consistent with the BOE's mission to serve the public through fair, effective and efficient tax administration. Specifically, this concept proposal allows the BOE to maintain and administer its Tax Gap II initiatives and the Lumber Fee Assessment programs. This concept proposal is consistent with, and supports, the BOE's strategic plan by maximizing voluntary compliance, investing in a skilled, motivated and diverse workforce, and enhancing the BOE's operational effectiveness.

JUSTIFICATION *(including link to Strategic Plan)*

Please see the additional document for the justification.

COSTS AND BENEFITS (BUDGET YEAR ONLY – FISCAL YEAR [2014-15])

☒ New funding ☒ Continuation ☐ Redirection

COST

\$ 2,046,000

REVENUE *(if applicable)*

\$ Pending

POSITIONS *(if applicable)*

15.5 Positions

COST SAVINGS *(if applicable)*

\$ Pending

PREPARED AND APPROVED

PREPARED BY

Michael Lee

DIVISION CHIEF APPROVAL

AUTHOR'S TELEPHONE NUMBER

(916) 445-2806

DATE

April 9, 2013

ACTION

☐ Concept Approved ☐ Request Denied

EXECUTIVE DIRECTOR *(signature)*


The BOE is requesting permanent establishment of 5.5 expiring positions in Tax Gap II related to our Outreach Efforts. These positions have been instrumental in educating taxpayers about use tax throughout the state. One of the BOE's Outreach Efforts consisted of sending a letter to income earners of \$1.0 million in August 2012 and \$500K in April 2013 who did not report any Use Tax on their Franchise Tax Board income tax return. The letter campaigns reached over 27,000 taxpayers in the August 2012 letter and over 80,000 taxpayers in the April 2013 letter. Data received from the August 2012 letter revealed that over \$3.0 million in Use Tax was reported and paid. Other Outreach Efforts include development of a Use Tax video, which is available on the BOE website to further educate taxpayers about the Use Tax program. The BOE has also developed a complete Use Tax Information Webpage that provides useful information ranging from basic use tax law and filing to specific resources. The BOE networks with tax professionals, industry groups, and associations to educate them about Use Tax. If the Outreach Effort positions are not established permanently, the state will lose out on the contact with taxpayers and the opportunity to educate them of their obligation to pay Use Tax. The Taxpayer Information Section will be impacted as well with the increase of phone call volumes and wait times. Without the necessary staff available to accommodate the increase in call volume the BOE will run the risk of the inability to target and educate taxpayers and may lead to unpaid Use Tax. Increasing Outreach Voluntary Compliance is the most effective method to collect the taxes that are due.

The BOE is requesting permanent establishment of 6.0 expiring positions in the Lumber Assessment program to continue workload that was expected to be one-time. The workload has proven to be an ongoing workload that includes maintaining and updating webpages and publications, maintaining and corresponding with the Board of Forestry, ongoing responses to taxpayer and tax professional's telephone and written questions and inquiries, generating lumber fee reports and analyses (i.e. revenue, registration, audits, collections, refunds, etc.). As a result, the 6.0 positions are requested to be established on a permanent basis. Due to technology limitations and the complexity of administering the Lumber Fee Assessment Program coupled with the existing Sales and Use Tax Program, the positions in the Return Analysis Unit and Local Revenue Allocation Unit are necessary to ensure accurate and timely allocation of lumber and sales and use tax revenues. The workload associated with these positions consists of taxpayer education, revenue allocation, and payment maintenance and billing. In addition, 4.0 new positions are being requested for our Technology Services Department. The Lumber Assessment Fee Program has resulted in many changes to our IRIS system which will require ongoing maintenance and support to efficiently administer and integrate the Lumber Assessment Fee into the BOE's infrastructure. These 4.0 positions were requested when final language for AB 1492 was chaptered, but were not approved at that time. Changes in the language from draft format to final chaptered format created additional workload in our Technology Services Department that has proven to be ongoing workload.